

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00  
CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06  
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EUR-12 /110 W  
----- 029158 /62

R 161506Z DEC 76  
FM AMEMBASSY QUITO  
TO SECSTATE WASHDC 2538  
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 8739

E.O. 11652: GDS  
TAGS: EINV ENRG PFOR EC  
SUBJ: RESUMPTION OF GULF NEGOTIATIONS TO BE POSTPONED UNTIL JANUARY

1. SUMMARY: MINFIN SEVILLA ON DECEMBER 15 TOLD EMBASSY OFFICERS THAT FURTHER GULF NEGOTIATIONS WOULD BE POSTPONED UNTIL JANUARY, IN ORDER TO AVOID TYING THE GOE TO A DECEMBER 31 DEADLINE AND TO AWAIT THE DEPARTURE OF MINNATRES VARGAS. HE ASKED EMBASSY CONVEY TO GULF THAT POSTPONEMENT IS VERY MUCH IN GULF'S INTEREST. HE FELT THE GOE COULD SATISFACTORILY EXPLAIN TO THE ECUADOREAN PUBLIC AND MILITARY THE POSTPONEMENT OF THE DECEMBER 31 "DEADLINE." SEVILLA STRESSED THERE ARE REAL PROBLEMS IN CORRECTLY AND FAIRLY EVALUATING GULF'S ASSETS. END SUMMARY.

2. NEWLY-APPOINTED MINISTER OF FINANCES SANTIAGO SEVILLA TOLD EC COUNSELOR AND PETROLEUM OFFICER DECEMBER 15 THAT RESUMPTION OF GULF NEGOTIATIONS WOULD BE POSTPONED UNTIL THE BEGINNING OF 1977. HE EMPHASIZED THAT NEGOTIATIONS AT THIS POINT-- GIVEN THE GENERAL INSTABILITY OF THE GOVERNMENT, THE DOMINANT POSITION OF MINNATRES VARGAS IN FORMULATING THE GOE'S POSITIONS, AND THE INSISTENCE BY VARGAS AND OTHER MILITARY LEADERS THAT GULF'S ASSETS BE TAKEN OVER BY CEPE ON  
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DECEMBER 31--WOULD ONLY PERMIT VARGAS TO HAVE HIS WAY JUST BEFORE BEING OUSTED. SEVILLA SAID VARGAS WOULD NOT LONGER BE THE MINNATRES WHEN HE RETURNS FROM THE CURRENT OPEC MEETING, AND SEVILLA INTIMATED THAT, UPON VARGAS' REMOVAL, SEVILLA WOULD BECOME THE CHIEF POLICY-MAKER FOR THE NEGOTIATIONS WITH GULF.

3. SEVILLA ASSURED THE EMBOFFS THAT THE MEMBERS OF THE SUPREME COUNCIL HAVE NO INTENTION OF EXPROPRIATING GULF WITHOUT COMPENSATION AND THAT THEY ARE AGREED THAT THE GOE WOULD CONTINUE NEGOTIATIONS WITH GULF AS LONG AS NECESSARY, WITHOUT REGARD TO THE DECEMBER 31 "DEADLINE" ANNOUNCED (AT VARGAS' DIRECTION) BY THE HEAD OF CEPE.

4. THE MINISTER ADDED THAT EQUITABLE TAX TREATMENT FOR TEXACO AND GULF IS HIS FIRST PRIORITY, AND THAT HE PERSONALLY HOPES THAT, BY EFFECTING THIS, GULF COULD YET BE PERSUADED TO REMAIN IN ECUADOR.

5. HE ASKED THE EMBASSY TO RELAY TO GULF THE RATIONALE FOR POSTPONEMENT OF THE NEGOTIATIONS, AND ASK THEM TO BE PATIENT, AND REFRAIN FROM ANY CONFRONTATION WITH THE GOE REGARDING THE POSTPONEMENT.

6. WHEN ASKED WHAT PUBLIC POSTURE THE GOE PLANNED TO TAKE ON DECEMBER 31 SEVILLA SAID THE GOVERNMENT WOULD ISSUE A PUBLIC STATEMENT TO THE EFFECT THAT SPECIAL CIRCUMSTANCES IN DECEMBER HAD MADE IT IMPOSSIBLE TO CONTINUE THE NEGOTIATIONS THEN--CIRCUMSTANCES SUCH AS THE ABSENCE OF THE MINISTERS OF NATURAL RESOURCES AND OF FINANCE. (SEVILLA SAID HE PLANNED TO TAKE A TRIP ABROAD FOR JUST THIS REASON.) HE COMMENTED THAT HE WAS NOT CONCERNED ABOUT THE ANTICIPATED "LEFTIST" REACION TO THE GOVERNMENT'S ANNOUNCEMENT, SINCE NONE OF THOSE GROUPS HAVE ANY REAL POWER.

7. THE MINISTER ALSO BRIEFLY MENTIONED THAT HE FORESAW SOME  
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SERIOUS DIFFICULTIES IN THE GULF-GOE NEGOTIATIONS. FOR EXAMPLE, ACCORDING TO THE MINISTER'S CALCULATIONS, GULF HAS A "GOING-CONCERN" VALUE OF SOME \$55 MILLION WHILE ITS BOOK VALUE IS CLOSE TO \$160 MILLION. HE ADMITTED THAT THIS LOW GOING-CONCERN VALUE WAS DUE TO ARBITRARY REGULATIONS AND TAXATION IMPOSED BY THE GOE WHICH HAS MADE GULF'S OPERATION UNPROFITABLE. HE STRESSED, HOWEVER, THAT ALTHOUGH IT WOULD BE POLITICALLY DIFFICULT FOR THE GOE TO PAY GULF MORE THAN ITS GOING-CONCERN VALUE HE WAS VERY DETERMINED TO MAKE A SETTLEMENT SATISFACTORY TO GULF.

8. THE ABOVE CONVERSATION WAS PASSED TO THE LOCAL MANAGER OF GULF LATER ON DECEMBER 15, WITH THE EXCEPTION OF PARA 7.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLITICAL STABILITY, DISPUTE SETTLEMENT, NEGOTIATIONS, TAXES  
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**Copy:** SINGLE  
**Draft Date:** 16 DEC 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Enclosure:** n/a  
**Executive Order:** GS  
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**Page Count:** 3  
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**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 JUL 2004 by ShawDG>; APPROVED <25 OCT 2004 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** RESUMPTION OF GULF NEGOTIATIONS TO BE POSTPONED UNTIL JANUARY  
**TAGS:** EINV, ENRG, PFOR, EC, GULF OIL  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006